

**Department of Telecommunications and Energy
First Set of Information Requests**

**THE BERKSHIRE GAS COMPANY
D.T.E. 02-81**

Witness: Karen L. Zink

Date: January 17, 2003

D.T.E. 1-1 Please refer to pages 4 and 5 of Ms. Zink's testimony. How does the Company determine whether it should approach acquisitions of commodity on a stand-alone basis or as part of a consortium? In your response, please explain why, in this case, Berkshire chose to solicit RFPs on a stand-alone basis instead of being part of a consortium to secure a replacement supply for the expiring Dynegy and Aquila contracts as the Company did in D.T.E. 02-56.

Response: There have been several instances where Berkshire has approached acquisitions of commodity as part of a consortium, including the original Dynegy and Aquila contracts which were negotiated through the Mansfield Consortium. Further, the contract with Distrigas of Massachusetts ("DOMAC") was also negotiated through the Mansfield Consortium. Finally, the Boundary replacement contract was negotiated with the Boundary Working Group. Due to mergers and acquisitions within the gas industry, the Mansfield Consortium no longer exists. Thus, there was no consortium body available with which Berkshire could negotiate to replace the Dynegy and Aquila contracts. When appropriate and beneficial to customers, the Company will initiate procurement efforts with its affiliates or other purchaser groups.

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D.T.E. 1-2 Please refer to pages 4 and 5 of Ms. Zink's testimony. What was the total cost associated with conducting the replacement process on a stand-alone basis? In the Company's estimation, what would it cost Berkshire to conduct the replacement process had the Company been part of a consortium?

Response: The cost associated with replacing the contracts on a stand-alone basis to date is approximately \$20,000. The cost as part of a consortium, assuming a group with similar interests had been available, might have been less since certain fixed costs could have been shared. Actual savings would depend on the number of members of the consortium and how the dollars were allocated among members to determine the actual cost. As described in the response to D.T.E. 1-1, there was no available consortium that could have assisted the Company in the procurement of its gulf resources.

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D.T.E. 1-3 Please refer to pages 4 through 11 of Ms. Zink's testimony. Please explain how, and to what extent, Berkshire's existing relationship with BP Energy affected the evaluation of the bids submitted to the Company in response to the RFP and the selection of BP Energy as the winning bid.

Response: Berkshire considered the merits of each bid on an individual basis. As noted in Ms. Zink's testimony at page 10, the Company considered diversity of supply but recognized that BP Energy's substantial resources and diversity of production enabled the Company to achieve substantial benefits. In sum, BP Energy was selected because it offered the most competitive price and the most reliable supply since BP Energy maintained a superior credit quality, maintains substantial production resources and has production on all three legs of the Tennessee system from which Berkshire takes deliveries.

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D.T.E. 1-4 Please refer to pages 3 and 4 of Ms. Zink's testimony. Please outline the portfolio objectives in the Company's most recent Forecast and Supply Plan submitted to the Department in D.T.E. 02-17. In relation to these objectives, show how the Gas Purchase Agreement is in the public interest.

Response: The Company's portfolio objectives as outlined in its most recent Forecast and Supply Plan submitted to the Department in D.T.E. 02-17 reflect the ongoing efforts of the Company to satisfy its public service obligations by providing economical gas service to its customers on a safe and reliable basis. As described in the Forecast and Supply Plan, Berkshire's primary objective is to pursue a "Least Cost Supply Strategy." Berkshire applies this strategy by seeking to minimize short-term costs while maintaining long-term supply security and economies, including the availability of adequate peak period supplies. The Company monitors daily gas index prices in order to change supply mix when cost savings will result. On a daily, weekly and monthly basis, the Company evaluates its resource requirements and releases those assets not required to serve its market and returns any values received for those assets to its firm customers. During the last two years, this has been accomplished, in part, through the Company's alliance relationship with BP Energy and certain of the other Energy East LDCs. The Company's longer-term resource requirements are generally addressed at least twice per year. Still further analysis will be performed when mandated by particular circumstances. Given the cyclical nature of supply availability and price changes, the Company's goal is to develop a long-term supply plan that achieves a proper balance of the overall goals of flexibility, stability and reliability for its customers. The pursuit of a "Least Cost Supply Strategy" allows Berkshire to provide for the public health, safety, and welfare with a reasonably priced gas supply.

As noted in Ms. Zink's testimony, the Company's overall resource plan also seeks to reflect the requirements of diversification of supply resources, maintenance and operation of a sound distribution system, as well as to provide for future demonstrated customer demand. Accordingly, the Company's resource plan must be flexible to facilitate the Company's response to changing market and regulatory conditions. The Company's supply plan and

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resources are also continually being evaluated for such additional factors as existing contractual changes and projected regulatory requirements.

Based on all of the objectives outlined above, the Company believes that the Gas Purchase Agreement achieves these objectives and is in the public interest. First, the procurement of a reliable gulf coast gas supply is critical to the Company's ability to provide reliable service. The BP Energy proposal not only provided the greatest reliability available in the market due to BP Energy's substantial and diverse resources as well as its ability to deliver on all relevant legs of the Tennessee system, but also the most economical supply. The BP Energy agreement will not frustrate the Company's ability to secure short-term savings through the approved alliance. Finally, the term of the agreement with BP Energy affords the Company the flexibility to respond to expected regulatory review of the natural gas market in Massachusetts.

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D.T.E. 1-5 Please refer to pages 3 and 4 of Ms. Zink's testimony. Please list the "range of alternatives reasonably available to the Company and its customers," and discuss how the BP Energy resource compares favorably to these alternatives. In your response, please discuss whether the "range of alternatives" include both domestic and foreign resources.

Response: The Company received four responses to its RFP related to the replacement gas supply contracts. Three of the responses were competitively priced while one, which was based on market area pricing, was not acceptable from a cost and risk perspective. One of the competitively priced supplies was being offered by a Company that had credit issues, therefore, the Company did not consider that bid as favorably. The other two responses were from credit-worthy companies and were comparably priced, and thus, reliability of supply was identified as the issue to consider in comparing such bids. The alternative bidder to BP Energy did not have production on all legs of Tennessee. Under normal circumstances this may not have been an issue. However, if there were curtailments on this leg, it could result in higher priced gas or, possibly, an inability to deliver a portion of the Company's gas supply. Further, the alternative supplier to BP Energy was unwilling to make certain contractual concessions that BP Energy agreed to make. Since the BP Energy bid was essentially the same price but offered production capability on all legs of Tennessee's system, and was willing to include more favorable contract terms, BP Energy was considered to be more reliable and, thus, was selected as the winning bidder.

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D.T.E. 1-6 Please refer to Ms. Zink's testimony and to Exhibit KLZ-1. Has the Company entered into an agency or management services agreement for the purpose of implementing the Gas Purchase Agreement with BP Energy? Please explain.

Response: The Company does not require an agency or management services agreement to implement the Gas Purchase Agreement with BP Energy.

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D.T.E. 1-7 Please refer to Exhibit KLZ-1, "Gas Purchase Agreement." Please discuss whether BP Energy has defaulted on any of its gas supply obligations to customers in the past 10 years.

Response: Berkshire is not aware of any instance where BP Energy has defaulted on any of its gas supply obligations to customers in the past 10 years.